

Developing the Surplus Property Plan

- Facts:
- Corporate dispositions will never stop
 - The business cycle
 - Business metamorphosis
 - The dual agenda of corporate real estate
 - How can you create value for your corporation
 - How does your senior management determine value?
 - Can you translate your work into measurable (\$) results?
 - The 5 to 1 ratio rule
 - The contingency mindset: you are paid for results

Developing the Surplus Property Plan

- The goal is to achieve the best possible return
 - The properties should be managed for maximum income
 - The properties represent significant capital investments
 - Thorough due diligence is essential
 - You are the “control valve” in the process
- Understand that value is a “perception”
 - You create value
 - Service provider save your time - therefore value
 - *The communication of value is only as good as the information you send*

Role Playing

- **Tenant Situation:**
 - Senior Management has advised your department that the R&D department for the software division will be closed and the staff re-focused on a new technology already being exploited by your competitors.
 - Your company has a lease for 200,000 s.f. with 10 years remaining @ \$24.00 full service. Your nominal remaining obligation is therefore \$48,000,000.
 - Senior Management wants you to close the facility ASAP and terminate the lease. They understand the market is good and the CFO was told by another CFO they may even be able to make money.

Role Playing

- The Landlord's Situation:
 - The business park where the tenant has the R&D facility is located was recently re-financed by the developer in order to complete deferred maintenance in order to sell 65% of the park to a major insurance company. The sale was completed one year ago
 - The overall market is good, but if the tenant moves out, there will be a 25% vacancy factor in the park
 - You spent \$40 p.s.f. on improvements for the tenant since they needed a specialized laboratory and a non-standard build-out

Hidden Costs of Vacating Leaseholds

- Will trigger write-down of unamortized capital expenditures from previous projects. Do you have this information?
- Subleases establish legal and financial liability for security deposits
- FASB 67 - Discount Operations:
 - Recognition of a write-down:
 - future rents for lease term
 - restoration
 - ADA & environmental
 - minus income
 - plus TI, free rent, commissions, etc.
 - = NPV of cash-flows
- Trigger of ADA requirements
- Scrutiny of lease and past improvements by landlord

Prioritizing Surplus Properties

- Criteria for Prioritizing:
 - The degree of negative cash flow
 - The book value
 - Potential for stemming losses
 - Potential for generating cash
 - Transaction ease
 - Transaction speed
 - Transaction cost
 - Accounting Issues
 - Intangibles: Image, PR, and Politics

Prioritizing Surplus Properties

- Weighted Rating Method
 - Immediate, short-term, long-term prioritization
 - Marketable and will turn over quickly
 - Offer the greatest financial return
 - Uncomplicated, inexpensive to dispose of
 - Have significant impact on the balance sheet or income statement
 - (Weighted rating matrix)

Developing Disposition Goals

- Financial Goals for Leased Properties
- Financial Goals for Owned Properties
- Facilities Management Goals
- Process Goals
 - Understanding the “*psychology of the disposition process*”

Financial Goals for Owned Properties

- Generate X dollars of *liquidated equity* from the sale of Y properties
- Generate X dollars *cash* over net book value from the sale of Y properties
- Generate X dollars *cash-flow* through leasing Y owned properties (including sale-leaseback's)
- *Save* X dollars (present value) through other transactions (gifting, exchanges, etc.)

Financial Goals for Leased Properties

- Generate X dollars (present value) through sublease or assignment of Y properties
- Achieve X cents on the dollar for Y lease termination costs

Facilities Management Goals

- Increase net income (return) from the portfolio by:
 - Increase occupancy
 - Tighten collection policies
 - Decrease operating expenses through improved management
 - Decrease debt service through re-financing:
 - private - institutional

Process Goals

- Secure your “empowerment” or authority to operate
- Institutionalize the process and procedure
 - develop a policy and procedures manual
- Develop effective communication channels with legal, finance, accounting and senior management

Developing the Plan: Summary

- Create and clarify your disposition philosophy:
 - Top priority will be given to reduce the amount of time needed to free the corporation's capital from surplus property to redirect it to the core business of the corporation
 - However, in the effort to reduce the amount of time needed, no short-circuiting of planning, research and due diligence will occur in order to save money or get to market
 - You are the corporation's real estate advisor : Be committed to infusing the disposition strategy and philosophy and process with your corporate knowledge. Communicate confidence in dealing with "Monday morning quarterbacks"

Developing the Plan: Summary

- Set priorities based on a complete research analysis of the entire portfolio
 - Be results, bottom-line oriented
 - Every property is unique - do not institutionalize strategy
 - Give priority to properties where the best financial results can be achieved in the shortest period of time (80/20 rule)
 - Set your priorities in context of their effect on the entire portfolio (don't miss the forest for the trees)
 - Communicate your goals regularly and effectively

Professional Challenge

- The Situation:
 - Your company has just undergone a major restructuring, creating numerous surplus properties throughout the nation
- The Goal:
 - To identify all surplus property and organize the effort to dispose of them
- The Assignment:
 - Develop a surplus property plan based on the information we covered